

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MSINGA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Msinga Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Msinga Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unauthorised expenditure

8. As disclosed in note 25 to the financial statements, the municipality incurred unauthorised expenditure amounting R8,489 million, due to overspending of amounts in certain votes of the approved budget.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
13. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

14. The material findings are as follows:

Usefulness of information

Presentation

15. Improvement measures in the annual performance report for 100% of the planned targets not achieved were not disclosed, as required by section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

16. A total of 55% of the planned objectives, 70% of indicators and 82% of targets were not consistent with the objectives, indicators and targets as per the approved annual performance report relative to the integrated development plan (IDP). This is due to the lack of understanding of the requirements of section 41(1)(c) of the MSA, which requires that the IDP form the basis for the annual report.

Additional matter

17. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

18. Of the total number of 48 targets planned for the year, 12 targets were not achieved, representing 25% of the total planned targets. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Audit committee

20. The audit committee did not substantially perform its functions for the year, as required by section 166 of the MFMA.

Internal audit

21. The internal audit unit did not substantially perform its functions for the year, as required by section 165 of the MFMA.

Budgets

22. Expenditure was incurred in excess of the amounts provided for in certain votes of the approved budget, contrary to the requirements of section 15 of the MFMA.

Procurement and contract management

23. Awards were made to providers whose members were persons in service of other state institutions, contrary to the requirements of regulation 44 of the Municipal Supply Chain Management Regulations of 30 May 2005.

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

INTERNAL CONTROL

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

26. Management did not exercise effective oversight responsibility over policies and procedures regarding budgets, supply chain and performance management to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

27. Management did not implement effective controls over the preparation, review and reconciliation of financial records as well as the reporting of performance against predetermined objectives. This is evidenced by the material corrections in the financial statements and material findings on the usefulness of the annual performance report.

Governance

28. The municipality did not have an effective and functioning audit committee throughout the financial year under review. This also impacted on their oversight role over the internal audit function.

Auditor General

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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